

Message Text

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PAGE 01 VIENNA 04373 271616Z

ACTION EB-07

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SUBJ: POSSIBLE TIGHTENING OF AUSTRIAN MONETARY POLICY

REF: A) 76 VIENNA 5244, B) VIENNA 2215

1. SUMMARY. AUSTRIAN NATIONAL BANK (ANB) SOURCE
REPORTS THAT CONCERN OVER BALANCE OF PAYMENTS SITUATION
IS CAUSING CENTRAL BANK TO CONSIDER SERIOUSLY A MARKED
TIGHTENING OF MONETARY POLICY. END SUMMARY.

2. A WELL PLACED ANB SOURCE TOLD EMBOFF MAY 26 THAT
SERIOUS CONSIDERATION IS CURRENTLY BEING GIVEN TO A
SIGNIFICANT TIGHTENING OF MONETARY POLICY. SOURCE
CAUTIONED THAT NO FINAL DECISIONS HAVE YET BEEN MADE
BUT EXPECTED THAT THEY WOULD BE AND CHANGES ANNOUNCED
BEFORE END OF JUNE. TWO PRINCIPAL MEASURES UNDER
STUDY, ACCORDING TO SOURCE, ARE A SUBSTANTIAL HIKE IN
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PAGE 02 VIENNA 04373 271616Z

CENTRAL BANK DISCOUNT RATE AND A REACTIVATION OF
CONTROLS ON CREDIT EXPANSION.

3. CENTRAL BANK DISCOUNT RATE. SOURCE SAID THAT
CURRENT FLAT 4PERCENT CENTRAL BANK RATE PROBABLY WOULD
BE CHANGED TO A VARIABLE RATE RANGING
BETWEEN 5.5 AND 8.5 PERCENT, DEPENDING ON EXTENT

OF A COMMERCIAL BANK'S RECOURSE TO CENTRAL BANK REFINANCING. WITHIN OVERALL REFINANCING QUOTA SET FOR EACH BANK (CALCULATED AS A FIXED PROPORTION OF ITS LIABILITIES), FIRST HALF WOULD BE AVAILABLE AT 5.5 PERCENT, THIRD QUARTER AT 7 PERCENT, AND REMAINDER ONLY AT 8.5 PERCENT.

4. CONTROLS ON CREDIT EXPANSION. WHILE A 12 PERCENT PER ANNUM LIMIT ON DOMESTIC CREDIT EXPANSION (SO-CALLED "LIMES") IS NOMINALLY IN EFFECT, IT HAS NOT BEEN ENFORCED SINCE OCTOBER 31, 1975. SOURCE SAID CONTROLS WOULD NOT ONLY BE REACTIVATED BUT THAT WITHIN THE "LINES" A SUB-QUOTA WOULD BE PLACED ON PERMISSIBLE GROWTH OF CONSUMER CREDIT. THIS STEP, HE REMARKED, WOULD BE DESIGNED TO ALLOW ANB TO STEP HARD ON MONETARY BRAKES WITHOUT SLOWING NEEDED EXPANSION OF BANK LENDING FOR BUSINESS INVESTMENT. IN PRACTICE, HE ADMITTED, SUCH A SUB-CEILING ON CONSUMER CREDIT MIGHT BE DIFFICULT TO ADMINISTER.

5. SOURCE SAID THAT CONSIDERATION OF ABOVE CHANGES WAS PROMPTED BY CONTINUED DETERIORATION OF AUSTRIA'S BALANCE OF PAYMENTS. ANB BELIEVES RAPID EXPANSION OF CREDIT PERMITTED BY ITS EASY MONEY POLICY CONTRIBUTED IMPORTANTLY TO LAST YEAR'S RECORD TRADE DEFICIT SINCE HIGH PROPORTION OF BORROWING APPEARS TO HAVE BEEN USED TO FINANCE IMPORTS, NOTABLY AUTOMOBILES. PAYMENTS SITUATION HAS CONTINUED TO DETERIORATE THIS YEAR, HE SAID, AND IS BEING FURTHER LIMITED OFFICIAL USE

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PAGE 03 VIENNA 04373 271616Z

AGGRAVATED BY SOME SPECULATIVE OUTFLOWS OF SHORT-TERM FUNDS.

6. ACCORDING TO SOURCE, ANB HAS CONCLUDED THAT BEST MEANS OF ATTACKING PAYMENTS PROBLEM IS TO RESTRAIN IMPORT GROWTH VIA CONTROLS ON CREDIT. EXPORTS, SOURCE OBSERVED, WERE EXPANDING AT A GOOD RATE (UP 14 PERCENT IN NOMINAL TERMS DURING FIRST QUARTER 1977; IMPORTS UP 18 PERCENT) BUT LITTLE ADDITIONAL GROWTH COULD BE EXPECTED OVER NEAR TERM GIVEN CONTINUED SLUGGISH IMPORT DEMAND IN SEVERAL OF AUSTRIA'S MAJOR TRADING PARTNERS. HENCE, IN SOURCE'S VIEW, THERE WOULD BE LITTLE GAIN AND SERIOUS POTENTIAL LOSSES (INCREASED INFLATION AND RESULTING STRAINS ON AUSTRIA'S "SOCIAL PARTNERSHIP" INCOMES POLICY) FROM ANY CHANGE IN THE "HARD SCHILLING EXCHANGE RATE POLICY.

7. COMMENT: A SUDDEN, SHARP TIGHTENING OF MONETARY

POLICY AT A TIME WHEN SOME COMMERCIAL BANKS ARE
ALREADY COMPLAINING OF A "LIQUIDITY SQUEEZE" COULD
HAVE SERIOUS ADVERSE EFFECTS ON OTHER GOA ECONOMIC
POLICY OBJECTIVES SUCH AS GNP GROWTH RATE AND
EMPLOYMENT. FOR THESE REASONS, 1976 OECD ECONOMIC
SURVEY ON AUSTRIA WARNED AGAINST DRASTIC STEPS TO
CONTROL CREDIT. YET GRADUAL SHIFT TO TIGHTER
MONETARY STANCE UNDERWAY SINCE MID-1976 HAS EVIDENTLY
BEEN INSUFFICIENT TO STEM GROWTH OF TRADE GAP AND
HEMORRHAGE IN FOREIGN EXCHANGE RESERVES. POSSIBLE
ALTERNATIVE REMEDY OF CHANGE IN GOVERNMENTS
"HARD SCHILLING" EXCHANGE RATE POLICY WOULD APPEAR
MORE QUESTIONABLE VALUE DURING UPCOMING SUMMER MONTHS,
WHEN AUSTRIA STANDS TO GAIN SUBSTANTIAL FOREIGN
EXCHANGE RECEIPTS FROM TOURISM, ALTHOUGH SUBSEQUENT
REALIGNMENT OF SCHILLING EXCHANGE RATE MAY WELL
BECOME NECESSARY FOR REASONS NOTED REF B. AS A
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PAGE 04 VIENNA 04373 271616Z

RESULT, GIVEN PRESENT SITUATION, EMBASSY CONCLUDES
THAT A SIGNIFICANT TIGHTENING OF MONETARY POLICY IS
A REAL POSSIBILITY HERE IN NEAR FUTURE.MEEHAN

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